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MARCH 21, 1988

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Forbes

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MARCH 21, 1988
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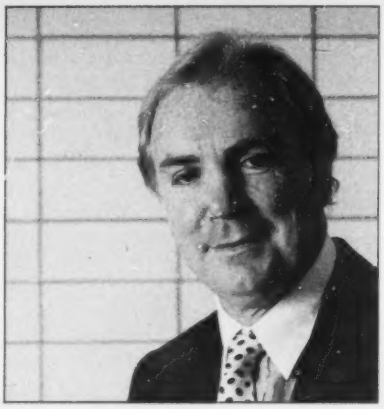

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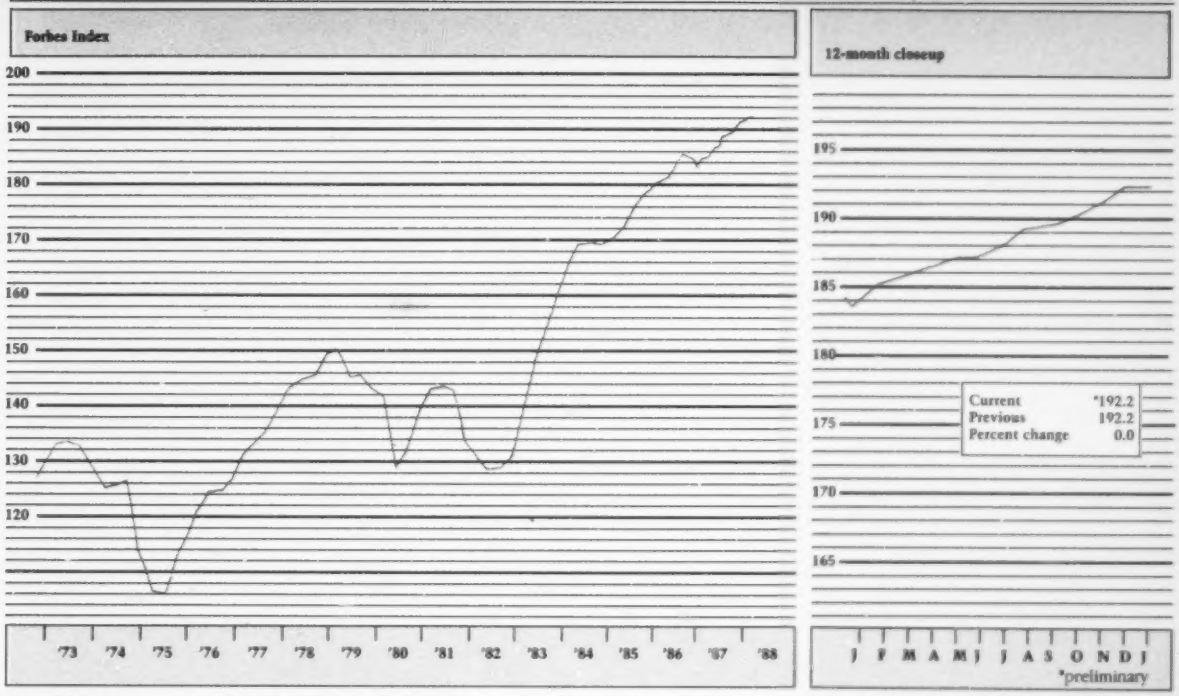
The Forbes Index



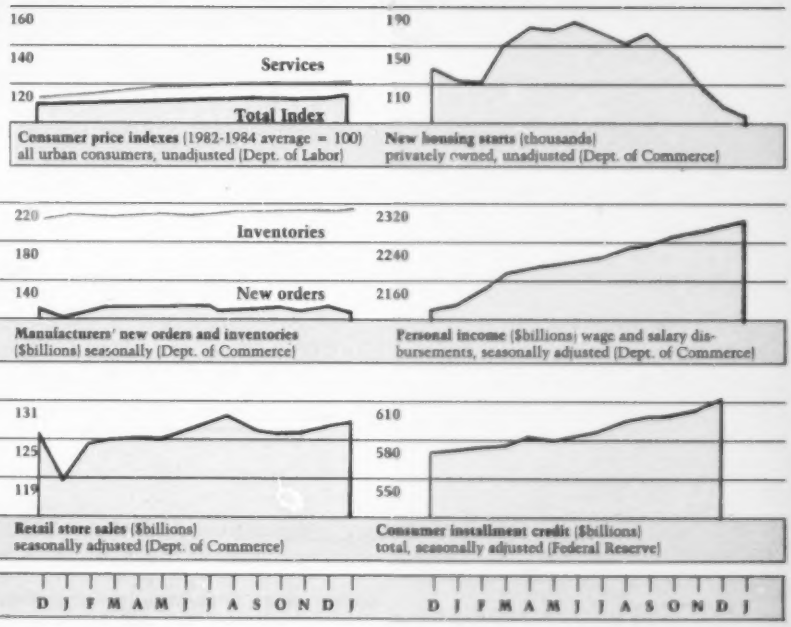
A leveling out, perhaps only temporary. The preliminary January Forbes Index shows no change from December. But the string of 11 straight months without a decline may last a little longer. That's because once the January figure for consumer installment credit is finally reported, it is likely to give the Index an upward nudge.

The Department of Labor has revised the Consumer Price Index. The new index replaces the base year 1967 with average prices from 1982 to 1984. The CPI rose 0.3% in January, to 115.7. But the services component of the index climbed nearly 0.6%. The trailing 6-month total of initial unemployment claims declined 0.8% in January, to 445,000. But this figure is 18% higher than it was in January 1987.

The Forbes Index Components

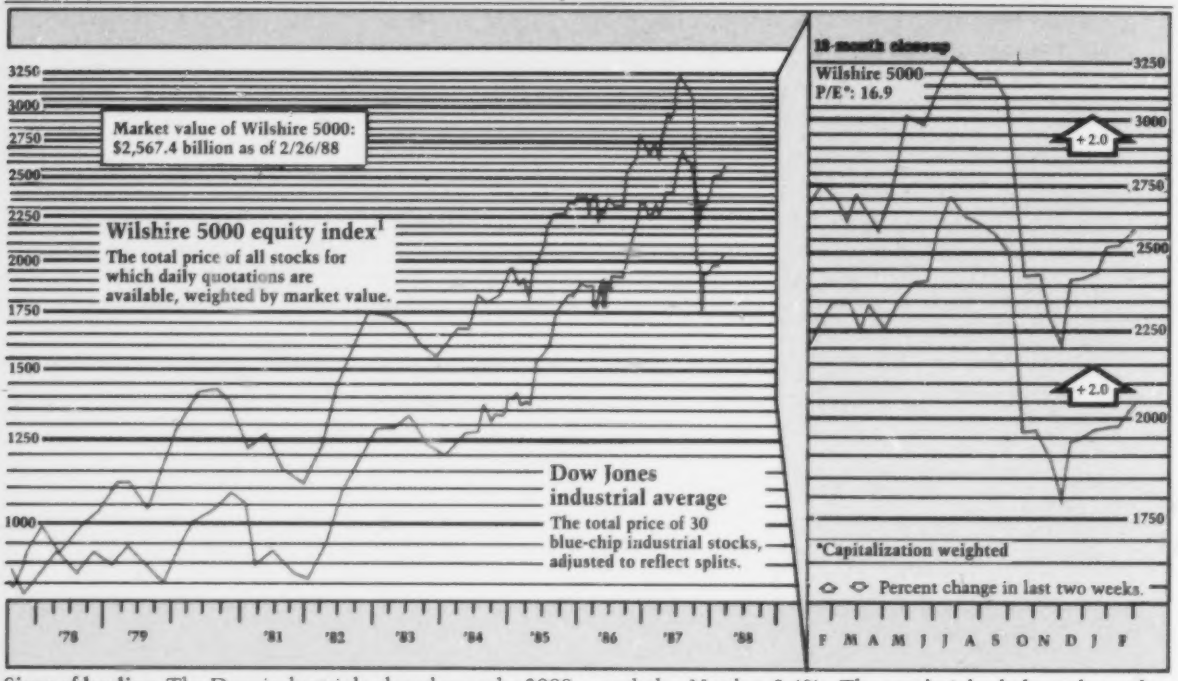
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.


160
140
120
Services
Total Index
Consumer price indexes (1982-1984 average = 100) all urban consumers, unadjusted (Dept. of Labor)
190
150
110
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)
135
132
129
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)
220
180
140
Inventories
New orders
Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)
2320
2240
2160
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)
250
350
450
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)
131
125
119
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
610
580
550
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
D J F M A M J J A S O N D J
D J F M A M J J A S O N D J
D J F M A M J J A S O N D J

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Signs of healing. The Dow industrials closed over the 2000 mark in six successive sessions during the two-week period covered by this report. And they ended the month of February at a new high since the crash. As of Feb. 26, the recovering Dow showed a loss of 9.7% for the previous 52 weeks, while the Nasdaq was off 14.5% and the Amex 11.6%. During the last four weeks secondary issues outperformed blue chips. For the same period the Dow was up 3.3% and the NYSE 2.5%, while the Amex gained 5.7% and the Nasdaq 5.4%. The yardsticks below show that investors were taking more chances. For example, over the last four weeks high-volatility stocks rose 7.1%, while low-volatility shares gained 2.1%. And high-P/E stocks increased 7.9%, vs. 4.2% for low-P/E issues.

The Wilshire P/E is now up to 16.9, matching the postcrash mark reached early in November. The precrash P/E peaked at 23 in August. Since that euphoric point, earnings are up slightly, prices down considerably.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	2.9	1.7	3.3	2.5	5.7	5.4
in last 52 weeks	–9.7	–8.7	–9.0	–8.8	–11.6	–14.5

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	4.3	6.5	7.1	2.1	7.9	4.2	2.3	7.9	7.8	4.1	5.7	7.7
in last 52 weeks	–5.8	9.0	11.4	4.1	–10.4	–8.8	–5.1	18.1	13.2	–1.2	–3.3	9.1

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

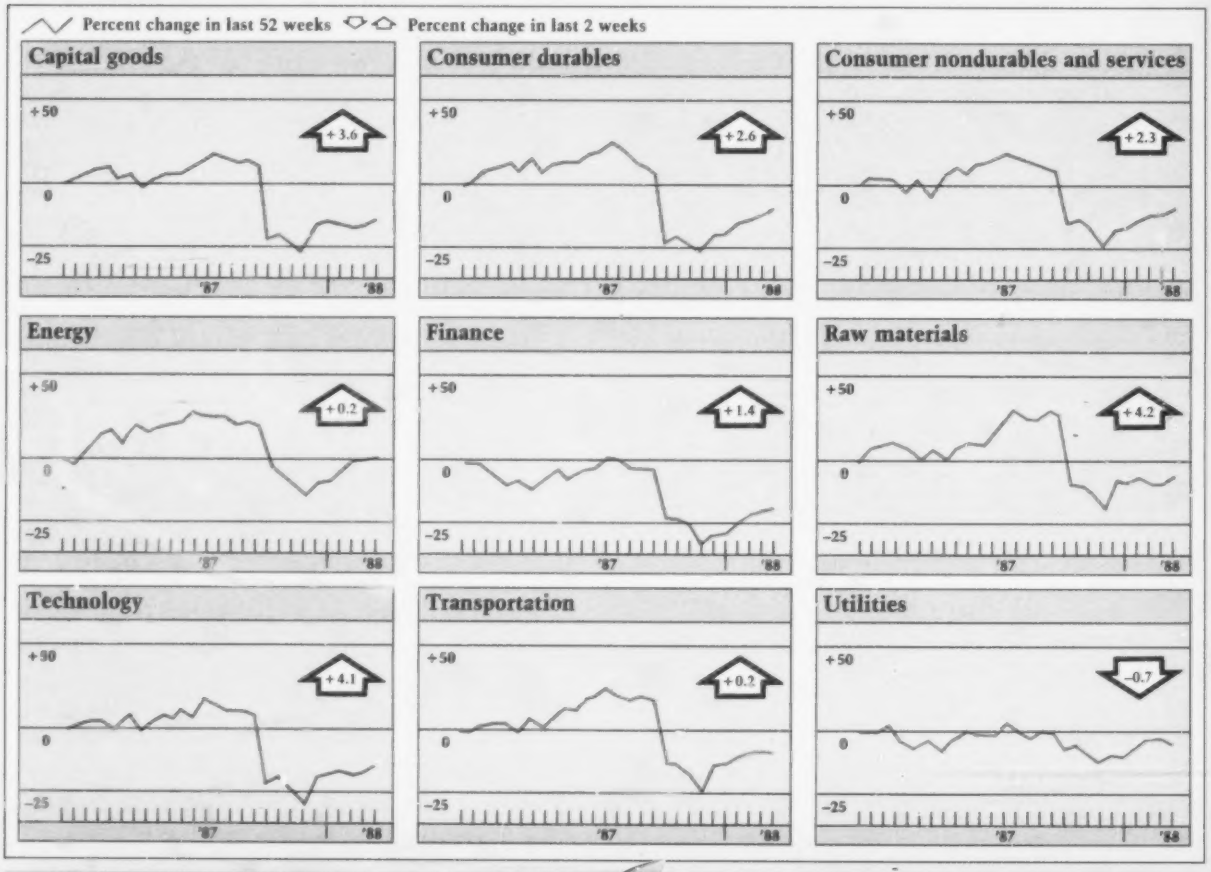
Note: All data for periods ending 2/26/88. Prepared by Wilshire Associates, Santa Monica, Calif.

Gay French

Where the Action Is

Raw materials and technology led the market over the last two weeks with gains in excess of 4%. USG Corp., which makes gypsum wallboard, and AFG Industries, a flat-glass manufacturer, rose more than 27%. The former is the subject of a buyout offer from Desert Partners, which is controlled by Cyril Wagner Jr. and Jack E. Brown. AFG is the subject of a buyout offer from its chief executive, R.D. Hubbard, who once worked with Wagner and Brown on a takeover offer for Lear Siegler.

Advanced Micro Devices, Measurex, Sundstrand and Tandem Computers led technology with double-digit gains. The only sector to lose ground was utilities, which fell 0.7%. Public Service Co. of New Mexico fell 16% as the company reported sharply lower fiscal earnings.



What the Analysts Think

Third thoughts. After the crash, security analysts slashed 1988 earnings estimates. Now the experts are changing their minds again. In the last two weeks estimates were raised for four sectors. Most favored is raw materials with International Minerals & Chemical, Texas Industries and Phelps Dodge showing the largest estimate increases.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.41	15.9
1988 estimates	3.54	10.8
1989 estimates	3.92	10.0

Rank based on change in estimate	Sector	Estimated 1988 EPS	Estimated 1988 P/E	% change in 1988 estimate in 2 weeks	% change in 1988 estimate in 4 weeks
1	Raw materials	$2.90	11.4	0.76%	1.47%
2	Consumer durables	3.82	12.7	0.41	0.51
3	Energy	2.96	12.7	0.34	-0.30
4	Capital goods	2.55	14.5	0.25	0.15
5	Utilities	3.04	9.9	-0.09	-0.15
6	Consumer nondurables	2.56	13.0	-0.13	-0.24
7	Technology	2.91	11.7	-0.28	-1.02
8	Finance	3.57	7.6	-1.00	-1.41
9	Transportation	2.49	12.0	-1.31	-1.91

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

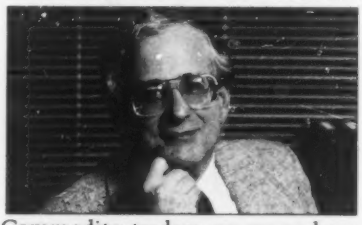
Note: All data for periods ending 2/26/88. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.

MONEY & INVESTMENTS

Do you know the first day you could get a delivery notice on your long bean contracts? Frank Taucher's 1988 Almanac will tell you that—and lots more.

READY REFERENCE

By Stanley W. Angrist



Commodity traders are up to here with stuff that offers to increase their trading prowess—trading systems, market letters, telephone hot lines, computer programs—you name it. But what every trader must have at hand—and surprisingly often does not—is a ready reference work that gives contract specifications, first notice and delivery days, dates of crop reports and the like, facts on futures that you must know to avoid doing something stupid.

Commodity Trader's Almanac for 1988 is a comprehensive fact book, and then some. Frank Taucher, the editor, also provides, for each week in the year, a collection of trades—outrights and spreads—that have proved 100% reliable over the last five years. The *Almanac* is worthwhile for its basic information alone; the addition of the seasonal trades makes it a best buy. The average profit of each of the outright trades has been $1,318. On each of the spreads, it has been $1,091.

For example, the *Almanac* suggests buying July cotton on Mar. 7 and selling it on May 23. Over the last five years this trade has produced an average profit of $3,299, with a maximum drawdown of only $500. The margin is $1,000.

The *Almanac* also suggests a number of interesting spreads. For example, the table shows one that calls for buying June hogs while selling June cattle on Mar. 31 and closing on May 23. The margin is $700.

The *Almanac* can be ordered for $75 by calling 918-493-2897.

There probably are several thousand technical methods (those that depend on prices, price patterns and the like rather than on fundamentals) that can be used to trade. Perry G. Kaufman, a longtime trader and writer on the commodities markets, has recently written an excellent book, *The New Commodity Trading Systems and Methods* (John Wiley & Sons, $39.95), that can serve as a reference for technical systems. To get the most good from it, one should understand how to place orders and be familiar with the mechanics of trading in these markets.

The book is designed to allow the reader to develop his own technical trading system. While this might sound like a formidable task—it certainly isn't an easy one—Kaufman provides you with all the tools necessary to carry it out. A reader with a good background in high school mathematics can follow nearly the entire book.

One section worth particularly close attention is ironically titled "Just Because It Doesn't Work in Practice Doesn't Mean It Won't Work in Theory." There, Kaufman lists his six rules of system development. He cautions that many traders still lose money even after they follow the given rules. Such failures, he thinks, probably come from cutting corners in the designing and testing of the system.

Example: Someone examining test results might notice that a system fails because of one or two large losses. He may then be tempted to impose a filter on the system so that these losses are eliminated. Wrong, wrong, wrong! Self-deluding nonsense. That is nothing more than curve-fitting—making the system fit the past perfectly, but at the cost of false confidence in the future. Kaufman's book has a number of such sections to help guide you to realistic system design. ■

Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets.

Hogs beat cattle

Frank Taucher's *Commodity Trader's Almanac* suggests that June hogs be bought and June cattle sold as a spread on Mar. 31, and that the spread be closed on May 23. This spread has provided a profit in each of the last five years. The two contracts are of different sizes (30,000 pounds for hogs, 40,000 for cattle).

	Prices*							
	Hogs		Cattle		Spread value			
Year	bought	sold	sold	bought	entry	exit	Profit	Maximum drawdown
1983	52.10	49.37	69.62	66.67	$–12,220	$–11,858	$362	$–453
1984	57.62	53.45	69.32	66.10	–10,443	–10,405	38	–163
1985	49.02	48.30	66.37	63.15	–11,843	–10,770	1,073	–173
1986	43.82	48.30	58.25	55.15	–10,153	–7,570	2,583	0
1987	47.82	57.10	63.42	67.42	–11,023	–9,840	1,183	–445

*Expressed in cents per pound.